

MAKING SENSE OF THIS WORLD

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R&R Weekly Column By Brunello Rosa



China's National People's Congress Sets Lower Growth Rate and Higher Security Spending Targets

This past weekend, China's 11th National People's Congress convened its annual session, which will continue until March 13th. This Chinese "parliament", with around 3000 delegates, will have to approve a series of key decisions made by the Chinese Communist Party leadership. First and foremost, the assembly will have to re-elect Xi Jinping as President of the Republic; he was already elected, for the third time, as the leader of the Chinese Communist Party (CCP) in October 2022.

Second, a new prime minister and a new government will need to be chosen. It is expected that <u>Li Qiang will replace Li Keqiang as China's premier</u>. Li Qiang is a close Xi associate, who worked with Xi in Zhejiang province in the 2000s, and last year presided over the lockdown of Shanghai as the city's Communist party leader. Li Qiang has recently become <u>the number two ranked member of the Standing Committee of the CCP's Politburo</u>.

Third, together with the Premier, all the government members and key officials of the administration will need to be chosen, including the Governor of the People's Bank of China, the Chinese central bank. It is widely understood that these officials will be chosen from among Xi's loyalists, with very little space left for dissenting voices. Press reports suggest these loyalists will be chosen within the ranks of local government politicians, who may be less likely to tackle financial speculation than the existing team, which is made up of hawkish technocrats, has been.

Fourth, the assembly will have to ratify the economic growth rate target for 2023, after last year's disappointing 3% (de facto a recession, for Chinese standards), compared to last year's target of 5.5%. This year's target is fixed at 5%, in line with the actual performance of the economy; even if some analysts consider this rate easier to achieve, given the rebound of the economy after the reversal of the zero-Covid policy. Other economic targets set for this year are the creation of around 12m urban jobs, to keep the unemployment rate at 5.5%, with a budget deficit that should not exceed 3% of GDP.

Fifth, military spending is expected to increase by 7.2% in 2023, outpacing the country's 5% GDP growth objective as well as the 7.1% of 2022. (So, this year the gap between military spending growth and GDP growth will be 2.2%, versus 1.6% last year). As the FT reports, "budgeted defence expenditure for 2023 account for 5.7 per cent of total government expenditure, the third annual increase in that share after more than 20 years of continuous reductions." Among China's military planned investments in 2023 will be a third aircraft carrier, destroyers, fighter aircraft and artificial intelligence facilities. In absolute terms, China's military budget will reach USD 210 billion, versus USD 817bn for US military spending. China aims at becoming a global military force by 2027, the 100th anniversary of its People's Liberation Army.

All in all, it is clear that this rubber-stamp assembly will certify Xi completing his grip on the Party and the country. The economic target will be relatively easy for the new government, made up of loyalists, to achieve. The increase in military expenditure will mark the end of the peaceful rise of China towards a role of global leadership. It will have a much more confrontational approach going forward, starting in Taiwan.

Our Recent Publications

Syria's Post-Earthquake Diplomatic Standing In The Gulf, by Gulf State Analytics, 2 March 2023





Looking Ahead

The Week Ahead: EZ QoQ GDP To Stall And YoY GDP To Slow Down; US Non-Farm Payroll To add 200K

In the US, In February, the unemployment rate is seen remaining unchanged at 3.4%. NFPs are expected to increase by 200K (*p*: 517K). In the EZ, in Q4, GDP is likely to stall on a quarterly basis (*p*: 0.3%) and decelerate by 1.9% y-o-y (*p*: 2.3%). In January, retail sales are expected to contract by 1.8% y-o-y (*p*: -2.8%) and advance by 1.0% m-o-m (*p*: -2.7%).

In the UK, in January IP is expected to shrink by 0.2% m-o-m (p: 0.3%) and 4.0% y-o-y (p: -4.0%).

The Quarter Ahead: The Ukraine War; EU's Green Deal Derailed Over Combustion Engines; The US Prepare New Rules For China Ukraine War: Bakhmut. Experts point out that Bakhmut's strategic importance and location is why it is so important for both Russia and Ukraine. According to Ukraine's military sources, a number of attacks have been repelled in the area of eastern Donetsk. The Ukrainian defence of Bakhmut is "under severe pressure" as Russian forces close in. Russia's Wagner group claims that Bakhmut is "practically surrounded" and called on Zelensky to withdraw his troops. In the meantime, Biden and Scholz met to discuss further assistance to Ukraine. Germany asks Switzerland to sell Leopard 2 tanks to the German arms producer, as it would allow European countries to fill gaps in their own stocks.

EU's plan to end sales of combustion engine cars gets into trouble. It is the key part of the European Green Deal. Germany and Italy backed the ban on internal combustion engines by 2035, but now want exemptions to be made for cars that run on "carbon neutral" synthetic fuels. In addition, Poland and Hungary also signalled their opposition to the plan.

The US prepares new rules on investment in China amid security concerns. The Treasury and Commerce departments reported they were considering a regulatory system to address investment in advanced technologies abroad that could pose national security risks.

Last Week's Review

Real Economy: EZ Headline Inflation Fell, Whereas Core Rose; EZ Unemployment Stayed The Same; DM PMIs To Increase Above 50 In the US, In February, according to final estimates, S&P Global Manufacturing and Services PMIs edged up to 47.3 (c: 47.8; p: 46.9) and 50.6 (c: 50.5; p: 46.8) respectively. Composite PMI increased too to 50.1 (c: 50.2; p: 46.8).

In the EZ, in February, the headline inflation rate eased off to 8.6% y-o-y (*c*: 8.2%; *p*: 8.6%), whereas the core inflation accelerated to 5.6% y-o-y (*c*: 5.3%; *p*: 5.3%). The monthly inflation rate rose to 0.8% (p: -0.2%). In January, the unemployment rate stayed unchanged at 6.7% (*c*: 6.6%). In February, Economic Sentiment slightly fell to 99.7 (*c*: 101; *p*: 99.8). Still in February, Consumer Confidence recovered only slightly to -19 (*p*: -20.7) as expected. In February, according to final estimates, S&P Global Manufacturing PMI decreased to 48.5 (*c*: 48.5; *p*: 48.8), whereas Services PMI edged up to 52 (*c*: 53; *p*: 50.8). Composite PMI increased to 52 (*c*: 52.3; *p*: 50.3).

In the UK, in February, according to final estimates, S&P Global Manufacturing and Services PMIs are seen increasing to 49.3 (c: 49.2; p: 47) and 53.5 (c: 53.3; p: 48.7). Composite PMI rose to 53.1 (c: 53; p: 48.5).

Financial Markets: Stock Prices Rose; Bond Yields Also Rose; Dollar Edged Down, While Oil And Gold Prices Increased

Market Drivers: Stock market optimist was fueled by a rally from technology titans, as investors believe that the Fed's monetary policy tightening would end soon. As a result, the yields eased from their recent highs and investors consider that the cumulative effect from Fed's hikes is already taking place.

Global Equities: Increased w-o-w (MSCI ACWI, +1.9%, to 639.69). The US S&P 500 index edged up (+1.9% w-o-w, to 4,054.64). In the EZ, share prices were up (Eurostoxx 50, +2.8% w-o-w, to 4,294.80). In EMs, equity prices moved up (MSCI EMs, +1.7%, to 988.03). Volatility fell to 19.4 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were up (+1 bps to 3.96%). The 2-year US Treasury yields rose (+5 bps to 4.86%). The German 10-year bund yield increased (+15 bps to 2.68%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.6%, to 104.5; EUR/USD +0.9%, to 1.06). In EMs, currencies fell (MSCI EM Currency Index, +0.5% w-o-w, to 1,675.47).

Commodities: w-o-w, oil prices increased (Brent, +3.8% to 86.0 USD/b). Gold prices rose w-o-w (+3.0% to 1,862.80 USD/Oz).



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Abbreviations, Acronyms and Definitions

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